

Office of Inspector General

U.S. Department of Homeland Security
Dallas Field Office, Office of Audits
3900 Karina Street, Room 224
Denton, Texas 76208



**Homeland
Security**

February 25, 2005

MEMORANDUM FOR: Gary Jones
Acting Regional Director, FEMA Region VI
Tonda L. Hadley

FROM: Tonda L. Hadley
Field Office Director

SUBJECT: *Grant Management: Louisiana's Compliance
With Disaster Assistance Program's Requirements*
Audit Report Number DD-03-05

This memorandum transmits the results of the subject audit performed by Foxx & Company, an independent accounting firm under contract with the Office of Inspector General. In summary, Foxx & Company determined that the Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On January 14, 2005, you responded to the draft audit report, stating that you agreed with all the recommendations. The attached report includes your response, in its entirety, as Management Comments. Your comments are also paraphrased and presented after each finding in the report, along with additional comments from the auditors (Foxx & Company and OIG). The complete report will be posted on our Intranet and Internet website.

Your response was adequate to resolve and close Recommendation A.2.2. The proposed actions in your response were sufficient to resolve all recommendations, except Recommendation A.1.2. For resolution of Recommendation A.1.2, please develop an action plan with a target completion date, indicating when you anticipate completing a review of the administrative allowance costs claimed subsequent to September 30, 2003. The recommendations will remain open until the described actions have been implemented.

Please advise this office by May 26, 2005, of the actions taken or planned to implement our recommendations. Please include a target completion date for all planned actions.

We thank your staff and LHLS/EP's staff for the courtesies extended the auditors during their fieldwork. If you have any questions concerning this report, please contact Stuart Weibel or me at (940) 891-8900.

cc: Mr. Billy Penn, Audit Coordinator, FEMA Region VI
Mr. Bill Moore, Foxx & Company
Ms. Martha Barksdale, Project Officer/COTR

TABLE OF CONTENTS

I.	Executive Summary	1
II.	Background	4
III.	Objectives, Scope, and Methodology	6
IV.	Findings and Recommendations	8
A.	Financial Management	8
1.	Use of Administrative Allowances	8
2.	Timely Disbursement of Federal Funds.....	11
B.	Program Management.....	13
1.	Quarterly Progress Reporting	13
2.	Large Project Payments	14
3.	Small Project Payments	16
4.	Project Monitoring and Case File Management	18
Attachments	21
A.	Sources and Applications of Funds Schedules	22
B.	List of Acronyms	30
Management Comments.....		31

I. EXECUTIVE SUMMARY

Foxx & Company has completed an audit of the State of Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP) administration and management of Federal Emergency Management Agency (FEMA) grant assistance programs. The overall objective of this audit was to determine the effectiveness of LHLS/EP's administration and management of FEMA assistance programs authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations.

This report focuses on the LHLS/EP systems and processes for ensuring that Public Assistance and Individual and Family Grant program funds were managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Act (Stafford Act) and the requirements set forth in Title 44 of the Code of Federal Regulations (44 CFR). Although the scope of this audit included a review of costs claimed, a financial audit of those costs was not performed. Accordingly, we do not express an opinion on LHLS/EP's financial statements or the funds claimed in the Financial Status Reports (FSRs) submitted to FEMA. The funds awarded and costs claimed for the disasters included in the audit scope are presented in Attachment A of this report.

Our audit included six major disasters and one emergency declared by the President of the United States between September 23, 1998, and February 1, 2003. Each of the seven declarations included Public Assistance (PA) grants and four included Individual and Family Grants (IFG). The Federal share of obligations for the seven declarations was over \$228 million. Federal funds claimed through September 30, 2003, were over \$226 million.

The audit concluded that the State of Louisiana needed to improve its program and financial management controls to ensure compliance with Federal grant management requirements. As indicated by the findings discussed in this report, significant internal controls weaknesses and noncompliance situations were identified during the audit. Each finding includes recommendations that, if implemented properly, would improve LHLS/EP's management, eliminate or reduce weaknesses in internal controls, and help to correct noncompliance situations.

The findings summarized below are discussed in detail in the body of the report.

Financial Management

- **Use of Administrative Allowance**

LHLS/EP did not expend FEMA-approved grantee administrative allowances in accordance with Federal requirements. LHLS/EP used \$247,166 of administrative allowance funds for expenses that were not considered allowable extraordinary expenses. These expenses included purchases for a car, computers, office supplies, membership dues, and general administrative expenses. In addition, LHLS/EP could not provide documentation to support that \$52,510 of administrative allowance funds used for allowable extraordinary expenses benefited the disaster for which the funds were awarded. As a result, we questioned \$299,676 claimed as administrative allowance costs.

- **Timely Disbursement of Federal Funds**

LHLS/EP did not disburse PA funds to subgrantees in a timely manner. An average of 21 days elapsed from the date the State withdrew Federal funds to the date the State signed the letter transmitting the check to the subgrantee. In addition, because the drawdowns of Federal funds remained in interest-bearing accounts for several days, LHLS/EP should remit to FEMA the interest income received.

Program Management

- **PA Quarterly Progress Reporting**

LHLS/EP did not report the status of individual PA projects in accordance with Federal requirements. LHLS/EP reported quarterly to the Regional Director on the status of open, large projects for only 50 percent of the subgrantees tested. As a result, the FEMA Regional Office did not receive required project status information essential for the performance of its oversight responsibilities on the PA programs.

- **PA Large Project Payments**

LHLS/EP automatically paid subgrantees the Federal share for approved large projects as soon as the projects were approved by FEMA and the money was obligated in SMARTLINK. The payments were made (1) based upon the estimated cost of the project, (2) without regard to the actual subgrantee's disbursement for the project, and (3) without the required subgrantee assurances that the funds would be disbursed in a timely manner. As a result, funds could be paid in excess of actual costs, delays in the closure of projects or programs could occur pending the recovery of excess payments from subgrantees, and the payments could result in the subgrantees earning interest on premature payments.

- **PA Small Project Payments**

LHLS/EP did not pay subgrantees for small projects in a timely manner. Subgrantees for the small projects sampled were paid between 31 and 133 days after Federal funding was approved. Only 19 percent of the subgrantees received payment within 40 days after funding approval. Timely payments for small projects are important to prevent unnecessary financial hardship on subgrantees. Untimely payment could also result in slow payments to vendors and contractors or delays in work.

- **PA Project Monitoring and Case-File Management Practices**

LHLS/EP did not adequately document its monitoring of PA subgrantee projects. Subgrantee project files did not always contain required documentation such as quarterly progress reports, time extension documents, documentation of site visits, Project Completion and Certification Reports, and closeout documents. Without this documentation, key events and decisions concerning the management of the project could not be adequately reviewed and the effectiveness of the grantee's monitoring could not be evaluated.

II. Background

Federal assistance can supplement the State's response efforts after major disasters and emergencies. When Federal assistance is needed, a Governor can request the President of the United States to declare a major disaster and thereby make relief grants available through the Federal Emergency Management Agency (FEMA).¹ FEMA, in turn, makes grants to State agencies, local governments, certain other non-profit organizations, private citizens, and other qualifying organizations through a designated agency within the State.

Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended

The Stafford Act governs disasters declared by the President of the United States. Title 44 of the Code of Federal Regulations (CFR) provides further guidance and requirements for administering disaster-relief grants awarded by FEMA.

The two major disaster assistance grant programs included in the scope of this audit were:

- Individual and Family Grants
- Public Assistance Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related expenses and needs. To obtain assistance under this type of grant, the Governor must express an intention to implement the IFG program. The Governor's request must include an estimate of the size and cost of the program. The IFG program is funded by FEMA (75 percent) and the State (25 percent).

Public Assistance (PA) Grants are awarded to State agencies, local governments, private non-profit organizations, Indian tribes or authorized tribal organizations, and Alaskan native villages or organizations for the repair/replacement of facilities, removal of debris, and establishment of emergency protective measures necessary as a result of a disaster. At least 75 percent of approved individual project costs are paid by FEMA and the remainder of the cost is paid by non-Federal sources. To facilitate project review, approval, and funding, projects are divided into two groups. The division is based on the monetary threshold established in 44 CFR 206.203 (c), *Project funding*. Small projects are those projects with a total estimated cost below the threshold.

Louisiana Office of Homeland Security and Emergency Preparedness

The Civil Act of 1950 created the Louisiana Office of Homeland Security and Emergency Preparedness (LHLS/EP), formerly the Louisiana Office of Emergency Preparedness (LOEP). The control and direction of the agency was placed under the Louisiana Military Department. In 1976, LHLS/EP was moved to the Department of Public Safety. In 1990, LHLS/EP was transferred again to the Military Department. In 2003, the Agency name was changed to the

¹ Effective March 1, 2003, the Federal Emergency Management Agency became part of the Emergency Preparedness and Response Directorate of the Department of Homeland Security.

Louisiana Office of Homeland Security and Emergency Preparedness. Since 1990, LHLS/EP has been under two Directors. The Director of LHLS/EP reported to the Governor of the State of Louisiana.

LHLS/EP was organized into seven divisions: Disaster Recovery, Information Technology, Information Analysis and Infrastructure Protection, Operations, Preparedness, Planning, and Support Services. LHLS/EP's authorized staffing level included 35 full-time and 9 temporary employees at the time of our audit.

LHLS/EP was the grantee for the six disaster programs and one emergency included in the audit. LHLS/EP managed the activities of the PA program. However, while LHLS/EP was responsible for the IFG program, the State Department of Social Services managed the program and disbursed the IFG grants. The Louisiana Military Department monitored program funding and was responsible for submitting the required financial reports.

III. Objectives, Scope, and Methodology

The **objectives** of this audit were to determine if the State of Louisiana (the grantee) had:

- Administered FEMA disaster assistance programs in accordance with the Stafford Act and applicable Federal regulations,
- Properly accounted for and expended FEMA disaster assistance funds, and
- Operated and functioned appropriately to fulfill its administrative, fiscal, and program responsibilities.

The **scope** of the audit included the six major disaster declarations and one emergency declaration with open FEMA/State Agreements as of September 30, 2003. These declarations occurred between September 23, 1998, and February 1, 2003. As agreed with the Department of Homeland Security, Office of Inspector General (OIG), we concentrated on the recent disasters for testing the management systems and procedures established by LHLS/EP. As appropriate, we expanded our tests to include other disasters when warranted by the issues identified. All seven declarations included PA programs. However, an IFG program was only included in four of the declarations.

Declaration			Disaster Programs	
Number	Date	Disaster	IFG	PA
DR 1246	09/23/98	Tropical Storm and Hurricane	X	X
DR 1314	02/15/00	Severe Winter Storm	Not Included	X
DR 1357	01/12/01	Severe Winter Storm	Not Included	X
DR 1380	06/11/01	Tropical Storm	X	X
DR 1435	09/27/02	Tropical Storm	X	X
DR 1437	10/03/02	Hurricane	X	X
EM 3172	02/01/03	Space Shuttle Columbia	Not Included	X

At the request of the Department of Homeland Security, Office of Inspector General (OIG), the Hazard Mitigation Grant Program was excluded from the scope of the audit because the OIG conducted that part of the audit. The OIG Audit Report Number DD-02-05 was issued on November 30, 2004.

The cut-off date for the audit was September 30, 2003. However, we reviewed more current activities related to conditions found during our audit to determine whether appropriate corrective action(s) had been taken.

The audit was initiated in January 2003 at FEMA Region VI in Denton, Texas. Region VI had Federal jurisdiction over FEMA disaster programs in the State of Louisiana. The fieldwork at LHLS/EP in Baton Rouge, Louisiana, started in February 2003.

The audit **methodology** included interviews with FEMA Headquarters, Regional Office, and State officials to obtain an understanding of the State's internal control systems and to identify current issues or concerns relative to LHLS/EP's management of disaster programs. Our audit considered

FEMA and State policies and procedures, as well as the applicable Federal requirements. We reviewed documentation received from LHLS/EP, as well as from FEMA Headquarters, the Regional Office, and the Disaster Finance Center in Berryville, Virginia.

We selected and tested individual recipient files and representative projects at LHLS/EP to determine if the disaster assistance programs had been conducted in compliance with applicable regulations. We also reviewed the State's procurement and property management procedures for compliance with Federal regulations. We evaluated current systems and procedures to identify systemic causes of internal control system weaknesses or noncompliance situations. Our review included all aspects of program management including applications for assistance, approval, monitoring, and reporting.

We reviewed prior audits conducted within the timeframe of the disasters included in our scope, including Office of Management and Budget (OMB) Circular A-133 audit reports and the subgrantee audit reports prepared by the Office of Inspector General. Our audit scope did not include interviews with LHLS/EP subgrantees or visits to project sites. We did not evaluate the technical aspects of the disaster related repairs.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book-1999 Revision). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified. The report does not extend to any financial statements of the Louisiana Division of Emergency Management or the Military Department.

IV. Findings and Recommendations

The findings and recommendations focus on LHLS/EP systems and procedures for ensuring that Federal grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The **findings** from the audit concerned LHLS/EP's financial and program management activities for the PA and IFG programs. These findings are detailed below.

The audit concluded that the State of Louisiana needed to improve its program and financial management controls to ensure compliance with Federal grant management requirements. As indicated by the findings discussed in this report, significant internal controls weaknesses and noncompliance situations were identified during the audit. Each finding includes recommendations that, if implemented properly, would improve LHLS/EP's management, eliminate or reduce weaknesses in internal controls, and help to correct noncompliance situations.

A. Financial Management

1. Use of Administrative Allowances

LHLS/EP did not expend FEMA-approved grantee administrative allowances in accordance with Federal requirements. LHLS/EP used \$247,166 of administrative allowance funds for expenses that were not considered allowable extraordinary expenses. These expenses included purchases for a car, computers, office supplies, membership dues, and general administrative expenses. In addition, LHLS/EP could not provide documentation to support that \$52,510 of administrative allowance funds, used for allowable extraordinary expenses, benefited the disaster for which the funds were awarded. As a result, we questioned \$299,676 claimed as administrative allowance costs.

Under the PA program, LHLS/EP received funds from FEMA for costs associated with the administration of disaster assistance programs. Federal Regulation 44 CFR 206.228(a)(2), *Statutory Administrative Costs*, restricts the use of the administrative allowance to extraordinary costs. Extraordinary costs include overtime pay, per diem, and travel costs incurred by State employees to formulate Project Worksheets, to validate small projects, to prepare final inspection reports and project applications, to conduct final audits, and to make field inspections. In addition, OMB Circular A-87 states that a cost is allocable to a cost objective if goods and services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received. In August 2000, FEMA issued a memorandum re-stating the limitations on the use of grantee statutory administrative allowance funds based upon 44 CFR 206.228 (a)(2).

The limitations on the use of the administrative allowances had existed in CFR Title 44 for several years prior to the August 2000 memorandum. We recognize that confusion existed within FEMA and State grantees concerning the use of these funds prior to August 2000. However, FEMA's memorandum clearly stated the limitations on the use of the allowances. We consider the date of

this memorandum to be a conservative baseline for testing the State's expenditures of administrative allowance funds.

Accordingly, we limited our testing to the period from the August 2000 memorandum through September 30, 2003. As shown below, during this period, LHLS/EP expended \$247,166 of administrative allowances for costs not allowed under FEMA policy and Federal regulations.

Disaster	Awarded	Expended	Tested	Not Allowed	Examples
1246	\$151,292	\$151,292	\$45,724	\$45,724	Cameras, film, seminar travel expenses, indirect costs, medical supplies
1314	\$37,053	\$37,053	\$37,053	\$37,053	Indirect costs and office supplies
1357	\$53,510	\$53,507	\$53,498	\$45,604	Projector, phone, office supplies, office equipment
1380	\$80,927	\$49,231	\$49,076	\$41,850	Automobile, membership dues, office supplies, office equipment
1435	\$67,953	\$19,149	\$19,149	\$11,850	Equipment maintenance, printing, utilities, office supplies
1437	\$386,786	\$88,966	\$88,966	\$58,875	Repairs and maintenance, utilities, software, office supplies, computer
3172	\$8,779	\$7,302	\$7,302	\$6,210	Office supplies, software, telephone service, cots, beds
Totals	\$786,300	\$406,500	\$300,768	\$247,166	

In addition, our test of administrative allowance expenditures showed that \$52,510 of the claims, used for allowable costs, had not been documented by the grantee to support that the expenses claimed were for the disaster programs for which the allowances had been awarded. These expenditures included costs of automobile leases, travel and employee overtime. The distribution of these expenditures by the applicable disaster is shown below. Each disaster included a PA program and a Hazard Mitigation Program.

Disaster	Undocumented Expenditures
1357	\$ 7,894
1380	\$ 7,226
1435	\$ 7,299
1437	\$ 30,091
Total	\$ 52,510

LHLS/EP officials stated they were unaware of any restrictions on the uses of the administrative allowance funds. In addition, LHLS/EP procedures did not require that administrative allowances expenditures be documented to the individual disasters for which the allowances were awarded.

Conclusions and Recommendations

LHLS/EP used administrative allowance funds to purchase items that were not allowable extraordinary costs. In addition, LHLS/EP used administrative allowances for allowable costs but did not document that the costs incurred were for the disaster programs for which the allowances had been awarded. As a result, we questioned \$299,676 claimed as administrative allowance costs. The \$299,676 represented 99 percent of the \$300,768 tested.

Accordingly, we recommend that the Regional Director, Region VI:

1. Disallow \$299,676 of unallowable and insufficiently documented claimed administrative allowance costs.
2. Disallow any claims subsequent to September 2003 for administrative allowance costs unless LHLS/EP can prove the costs claimed were eligible and reported, and
3. Require LHLS/EP to develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for allowable extraordinary costs associated with the disaster program for which the funds were awarded.

Management's Response

1. We concur that any unallowable or insufficiently documented costs should be disallowed. We need documentation (project worksheets and disaster numbers) to determine if we concur with the questioned costs.
Target Date: June 1, 2005
2. We concur that we will disallow any ineligible claims for administrative costs as identified by future audits. If we become aware of claims for administrative costs that may be ineligible, we will require an audit of these claims.
Target Date: Ongoing
3. We concur that we will require the State to develop and implement effective internal controls to ensure that disaster funds are used appropriately.
Target Date: September 1, 2005

Auditor's Additional Comment

Subsequent to receiving Management's Response to the draft report, the auditors discussed the Region's need for additional information related to the first recommendation with Regional management. Regional management agreed that the table of questioned cost information included in the finding provided the information necessary to determine if there is concurrence with the costs questioned.

The actions being taken by Regional Office management appear adequate to resolve Recommendations A.1.1 and A.1.3. These two recommendations can be closed when the Region

assures that the State has developed and implemented the recommended internal control procedures and the Region has recovered the \$299,676 of unallowable claims.

However, the actions described for Recommendation A.1.2 are not sufficient to correct the conditions cited in the finding. Given the fact that LHLS/EP could not support the eligibility of 99 percent of the administrative allowance reviewed, we believe the region should require LHLS/EP to submit documentation to support all administrative allowances claimed after September 2003. The Region should review 100 percent of the documentation until it is satisfied that LHLS/EP is consistently complying with federal regulations. Therefore, Recommendation A.1.2 remains unresolved.

2. Timely Disbursement of Federal Funds

LHLS/EP did not disburse PA funds to subgrantees in a timely manner. An average of 21 days elapsed from the date of drawdown from SMARTLINK² to the date the letter transmitting the check to the subgrantee was signed. In addition, because the drawdowns of Federal funds remained in interest bearing accounts for several days, LHLS/EP should remit to FEMA the interest income received.

Federal Regulation 44 CFR 13.21(c), *Advances*, provides that grantees are to be paid in advance, provided that the grantees demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds from SMARTLINK and the grantee's disbursement of the funds for program expenditures. Federal Regulation 31 CFR 205.12³ requires a State to disburse Federal funds within 3 business days after drawing the funds from a Federal account. Federal Regulation 44 CFR 13.21(i), *Interest earned on advances*, requires that a grantee remit interest earned on advanced funds in excess of \$100 to FEMA.

We tested 19 payments to PA subgrantees involving drawdowns from SMARTLINK, of which 14 were transmitted to subgrantees by mail and 5 by electronic funds transfer (EFT). Of the funds transmitted by mail, an average of 21 days elapsed from the date of the drawdown to the date the letter transmitting the check to the subgrantees was signed. The Federal funds remained in State investment accounts during this time, at a rate of 4 percent interest in fiscal year 2003.

We consider the 21-day average to be conservative in that it did not include the days until the subgrantee received and cashed the check, or the time it took the bank to clear the check. When LHLS/EP paid subgrantees by EFT, the time between the SMARTLINK draw and payment averaged 2 days.

LHLS/EP officials stated they were unaware that the State Treasurer deposited Federal funds in State investment accounts. The LHLS/EP officials said that, in the future, they would try to process payments to subgrantees by EFT to the maximum extent possible.

² SMARTLINK is the Federal Department of Health and Human Services payment system. It records and reports obligation and drawdown activities in support of FEMA's disaster assistance programs.

³ RULES AND PROCEDURES FOR EFFICIENT FEDERAL-STATE FUNDS TRANSFERS

Conclusions and Recommendations

When payments to PA subgrantees were made by mail, LHLS/EP did not disburse the funds in a timely manner after drawing down the funds from SMARTLINK. This situation occurred because of the lengthy processing time involved in mailing rather than electronically transferring the payments to the subgrantees. The untimely payments resulted in the State receiving interest income on the drawdowns of Federal funds. In accordance with Federal regulations, the interest earned from the investment accounts should be remitted to FEMA.

Accordingly we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Implement policies and procedures to minimize the time elapsing between the drawdown of PA funds from SMARTLINK and their disbursement to subgrantees,
2. Consider requiring all subgrantees to receive PA funds by EFT,
3. Determine the interest earned from early drawdowns of Federal funds for open PA programs, and
4. As part of the program closure process, require the State to reimburse FEMA for the income received as a result of untimely payments.

Management's Response

1. We concur with this recommendation. We will work with the State to implement procedures to disburse funds more quickly from SMARTLINK.
Target Date: September 1, 2005
2. We have no authority to require the State to make that requirement of the sub-grantees. We recommend the practice but cannot make the requirement.
3. We concur that the interest earned from early drawdowns should be identified. We will request the State identify the interest earned from these early drawdowns.
Target Date: June 1, 2005
4. We concur with this recommendation. We will ask the State to reimburse FEMA for any interest earned from untimely payments.
Target Date: September 1, 2005

Auditor's Additional Comment

We recommended the Regional Director consider requiring all subgrantees to receive PA funds by EFT. The Region's consideration of this practice is adequate to resolve the recommended action. Accordingly, the actions being taken by Regional Office management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the State has (1) developed and

implemented the recommended procedures, (2) identified the interest earned from early drawdowns, and (3) reimbursed FEMA for any interest earned from untimely payments.

B. Program Management

1. Quarterly Progress Reporting

LHLS/EP did not report the status of individual PA projects in accordance with Federal requirements. LHLS/EP reported quarterly to the Regional Director on the status of open, large projects for only 50 percent of the subgrantees tested. As a result, the FEMA Regional Office did not receive required project status information essential for the performance of its oversight responsibilities on the PA programs.

In accordance with 44 CFR 206.204(f), *Progress reports*, grantees were to submit PA quarterly progress reports to the Regional Director for all projects for which final payment of the Federal share had not been made. The reports were to describe the status of each project and outline any problems or circumstances expected to result in non-compliance with the approved grant conditions. LHLS/EP's approved Public Assistance administrative plan also stated that subgrantees were to submit status reports to the grantee at least quarterly on all open projects.

LHLS/EP's subgrantees did not always submit the required quarterly progress reports for open, large projects. Our review of 10 subgrantee files, involving 23 large projects, showed that only 5 subgrantees submitted the required progress reports. These 5 subgrantees reported the status of 13 open projects. When the subgrantees did not submit the required progress reports, LHLS/EP did not report the status of the projects to the Regional Director.

LHLS/EP had been aware of its failure to fulfill the quarterly reporting requirements. A November 2000 FEMA/OIG audit had reported that LHLS/EP was not submitting progress reports to the Regional Director as required. In addition, an internal audit report by the State Military Department in December 2003 reported that 45 percent of the subgrantees sampled did not submit progress reports on the status of projects to LHLS/EP.

LHLS/EP officials acknowledged that subgrantees had been lax in providing quarterly status reports on open projects. The officials said LHLS/EP was not able to report quarterly to the Regional Director on the status of open projects without receiving status reports from the subgrantees. The officials also said that workload had prevented LHLS/EP from following up with the subgrantee to assure that the required reports were received in a timely manner.

Conclusions and Recommendations

Grantee quarterly progress reports on PA projects are an important source of information for FEMA to exercise its management and oversight responsibilities for the PA program. The reports should provide the status of all projects for which final payment has not been made. The reports can alert the Regional Office on a timely basis of the need for action to help prevent or reduce delays in completing and/or closing projects. LHLS/EP's procedures were not adequate to ensure

that the required quarterly reports were submitted to FEMA in compliance with Federal regulations.

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Enforce the requirement in the FEMA-approved administrative plan that subgrantees submit quarterly status reports and
2. Establish procedures to ensure that the required PA quarterly progress reports for all open projects are submitted by the grantee to FEMA until final payment is made.

Management's Response

1. We concur with this requirement. We will work with the State to ensure that subgrantees submit quarterly status reports.
Target Date: Open until the next disaster, then ongoing
2. We concur with this requirement. The State is developing procedures to ensure quarterly reports on all open PA projects and has been submitting quarterly reports, which the Region has been reviewing. We will continue to work with the State to complete and implement these procedures.
Target Date: September 1, 2005

Auditor's Additional Comment

The actions being taken by Regional Office management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the State has developed and implemented the recommended procedures and quarterly status reports are submitted as required.

2. Large Project Payments

LHLS/EP automatically paid subgrantees the Federal share for approved large projects as soon as the projects were approved by FEMA and the money was obligated in SMARTLINK. The payments were made (1) based upon the estimated cost of the project, (2) without regard to the actual subgrantee's disbursement for the project, and (3) without the required subgrantee assurances that the funds would be disbursed in a timely manner. As a result, funds could be paid in excess of actual costs, delays in the closure of projects or programs could occur pending the recovery of excess payments from subgrantees, and the payments could result in the subgrantees earning interest on premature payments.

In accordance with 44 CFR 206.205(b), *Payment of claims/Large Projects*, payments for a project should be made in accordance with 44 CFR 13.21, *Payments*, which states that reimbursement shall be the preferred method of payment if the subgrantee has not maintained or demonstrated the willingness and ability to minimize the time elapsing between the receipt of the funds and the subgrantee's disbursement of the funds.

LHLS/EP's PA-approved administrative plan stated that the PA officer would process requests for partial payment of funds for large projects in accordance with FEMA regulations. The plan also stated that (1) subgrantees should initiate large projects before requesting advance of funds and (2) subgrantees must certify an amount spent, the percentage of work completed, and the anticipated work completion date based on actual expenditures not estimates.

We reviewed 23 large projects to determine when LHLS/EP paid the Federal share for these projects. In all cases the payments were automatically made to subgrantees after the funds were approved. Our analysis showed that, for 9 of the 23 projects tested, 100 percent of the approved Federal funding was paid to the subgrantee even though the project worksheets indicated that the projects had not been started or had not been completed. The total amount paid on these nine projects was about \$5.2 million. Based on the percentage of the project work shown on project worksheets as completed, only \$0.6 million should have been paid. We saw no evidence that LHLS/EP had received assurances from the subgrantee that the funds received would be disbursed for projects in a timely manner.

We also noted for 1⁴ of the 23 projects that an overpayment had occurred. The estimated cost of the project, when approved, was \$600,600. The Federal share of \$450,450 (75 percent) was paid when the project was approved. However, the final cost claimed for the project by the subgrantee when the project was completed was only \$356,561. This cost underrun of \$244,039 resulted in the Federal share being overpaid by \$183,029 (75 percent of \$244,039). As of September 30, 2003, the project was still open and the \$183,029 overpayment had not been returned to FEMA.

LHLS/EP officials said they automatically paid the Federal share to subgrantees for large projects because a previous audit report recommended that this procedure be followed. However, these officials did not provide documentation to support their assertion that an audit had recommended this procedure.

Conclusions and Recommendations

LHLS/EP's procedures were to pay subgrantees the entire Federal share of large projects without regard to the subgrantee's actual disbursement of funds for the project. This procedure resulted in at least one overpayment that had not been refunded. The procedure could also delay the closure of projects or programs pending the recovery of excess payments from subgrantees and result in subgrantees earning interest on premature payments.

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Develop and implement procedures to ensure that payments for large projects comply with Federal requirements and LHLS/EP's approved PA administrative plan and
2. Refund to FEMA the overpayment of \$183,029 made to a subgrantee.

⁴ Disaster No. 1437, Project Worksheet 1386 – Removal of trees from Evangeline Parish Police Jury property

Management's Response

1. We concur that the State must have procedures to ensure that payments for large projects comply with Federal requirements. We will work with the State to ensure that they have these procedures and that they implement them.
Target Date: September 1, 2005
2. We concur that any overpayments of Federal disaster funds made to a subgrantee must be refunded to FEMA. We will work with the auditors to identify any overpayments and recoup the funds. The auditors will need to identify the disaster and the PWs (Project Worksheets) before the Region can concur with the amount of any overpayment or recoup any funds from overpayments.
Target Date: September 1, 2005

Auditor's Additional Comment

The actions being taken by Regional Office management appear adequate to resolve the conditions cited. However, we cannot close the finding until the overpayment of \$183,029 has been recovered and the State has developed and implemented procedures to ensure that payments for large projects comply with Federal requirements. With respect to the overpayment, we have added a footnote identifying the overpayment within Project Worksheet 1386 under Disaster No. 1437.

3. Small Project Payments

LHLS/EP did not pay subgrantees for small projects in a timely manner. Subgrantees for the small projects sampled were paid between 31 and 133 days after Federal funding was approved. Only 19 percent of the subgrantees received payment within 40 days after funding approval. Timely payments for small projects are important to prevent unnecessary financial hardship on subgrantees. Untimely payment could also result in slow payments to vendors and contractors or delays in work.

In accordance with 44 CFR 206.205 (a), *Payment of claims/Small Projects*, final payment of the Federal share of the cost of small projects should be made to the grantee upon approval of the Project Worksheet. The regulation also stated that the grantee should make payments of the Federal share to subgrantees as soon as practicable after Federal approval of funding. A specific number of days for payment to be made was not included in the Federal requirement.

For the purpose of determining what was practicable, we considered the 30-day requirement set forth in the Federal Prompt Pay Act. The State of Louisiana did not have criteria stipulating when small project payments should be made. However, State officials agreed that a 30-day period was reasonable and was a good business practice.

We reviewed 16 small projects for compliance with the timely payment requirements. Of the 16 projects, 5 were from Disaster No. 1380 and 11 were from Disaster No. 1437. The number of

days from the date FEMA obligated the funds to the date payment was made to the subgrantee for the 16 projects averaged 69 days. As shown in the table below, based upon the 30-day criteria, LHLS/EP did not pay any of the 16 projects sampled in a timely manner.

Obligation Date to Payment Date	Number of Small Projects	Percent of Small Projects
Within 30 days	0	0%
Between 31 and 40 days	3	19%
Between 41 and 50 days	2	12%
Between 51 and 60 days	3	19%
Over 60 days	8	50%
Total	16	100%

According to an LHLS/EP official, when these disasters occurred, staffing was inadequate to administer payments for small projects. We also believe that LHLS/EP's payment process, described as follows, contributed to the delay in processing small project payments. After funds were obligated by FEMA, a request to process a payment was made to the Military Department. The Military Department recorded the request and then sent it to the State Treasury. The State Treasury prepared the check for the subgrantee and sent the check back to the Military Department. The Military Department recorded the payment and sent the check to LHLS/EP. Finally, LHLS/EP prepared a letter sending the check to the subgrantee.

LHLS/EP officials agreed that improvements were needed in the State's procedures and process for paying subgrantees for small projects. The officials said an effort would be made to make the system more efficient.

Conclusions and Recommendations

LHLS/EP's procedures did not comply with the requirement to make small projects payments as soon as practicable after the funds were approved. While the workload associated with the disasters declared in Louisiana contributed to the untimely payments, other factors, such as the complexity of the State's process for payments to subgrantees also affected the timeliness of payments.

Accordingly, we recommend that the Regional Director, FEMA Region VI, require LHLS/EP to develop and implement procedures that will improve the efficiency of the State's payment process and result in timely payments to subgrantees for small projects.

Management's Response

We concur with the recommendation. We will work with the State to develop and implement procedures to make the State's payment of grants for small projects more efficient and timely. Target Date: September 1, 2005

Auditor's Additional Comment

The actions being taken by Regional Office management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the State has developed and implemented procedures to improve the efficiency of the State's payment process and the State's payments to subgrantees for small projects are made in a timely manner.

4. Project Monitoring and Case File Management

LHLS/EP did not adequately document its monitoring of PA subgrantee projects. Subgrantee project files did not always contain required documentation such as quarterly progress reports, time extension documents, documentation of site visits, Project Completion and Certification Reports, and closeout documents. Without this documentation, key events and decisions concerning the management of the project could not be adequately reviewed and the effectiveness of the grantee's monitoring could not be evaluated.

Federal Regulation 44CFR 13.40, *Monitoring and reporting program performance*, establishes requirements for monitoring and reporting FEMA grants program performance. This section provides that grantees are responsible for day-to-day management of grant and subgrant supported activities. Grantees must assure subgrantee compliance with applicable Federal requirements and that performance goals are achieved. This section also requires that grantee monitoring must cover each program, function, or activity, and adhere to these same standards in prescribing performance and reporting for subgrantees.

According to FEMA Publication 322, *Public Assistance Guide*, Public Assistance case management files are to combine all applicant information collected throughout the PA process into one centralized customer file. Records of meetings, conversations, phone messages, and related administrative documentation are to be added to the file on a continuous basis. From the time a local entity first requests public assistance to the time the entity completes the grant process, all information pertaining to the entity is to be recorded and tracked through the case management file. The file tracks projects throughout the process and facilitates the making of proper decisions at different stages of the grant process. The value of such decisions depends on the quality and quantity of the information collected and its availability to the grantee.

We reviewed three subgrantee files from Disaster No. 1380 and seven subgrantee files from Disaster No. 1437. FEMA had approved a total of 40 projects for these 10 subgrantees. The 40 projects included 12 from Disaster No. 1380, and 28 from Disaster No. 1437. Our review showed that the following documents were missing from the files:

-
- **Quarterly Progress Reports.** Five subgrantees (50 percent) did not submit quarterly progress reports as required by the FEMA-approved PA administrative plan. The plan required subgrantees to report progress on all open projects, small and large, at least quarterly. A State Military Department, Internal Audit Report, issued in December 2003 also concluded that 45 percent of the subgrantees were not submitting quarterly progress reports.
 - **Time Extension Requests.** Subgrantee files for three projects (8 percent) did not contain time extension requests for completion of work even though the projects had not been completed by the required deadline. The State Military Department also reported this condition as a finding in their December 2003 audit report.
 - **Documentation of Site Visits.** While some subgrantee files contained documentation of interaction with the subgrantee, most files lacked documentation of contacts with the subgrantee during the period from when the project was approved to when it was closed.
 - **Project Completion and Certification Reports (P.4).** When projects are completed, subgrantees are to submit P.4 Reports certifying that approved projects have been completed, all costs claimed are eligible in accordance with grant conditions, and the costs claimed have been paid in full. Two of the subgrantee files (20 percent) reviewed did not contain the required P.4 certification. In addition, we reviewed an internal LHLS/EP closeout status document for Disaster No. 1380 that identified seven subgrantees that had not submitted P.4s even though the subgrantees' PA projects had been closed. In December 2003, the State Military Department stated in its audit report that 76 percent of the applicants did not sign off on the P.4 when the PA projects were completed.
 - **Closeout Documents.** Two of the subgrantee files (20 percent) did not contain closeout documentation such as final inspection reports or documentation supporting the reconciliation of costs incurred with Federal funds authorized. Because our sample included only a few closed projects, we selected ten additional subgrantees from Disaster No. 1380 for review. While all ten of these files contained P.4s, no additional closeout documentation was found for five (50 percent) of the ten additional subgrantee Disaster No. 1380 files reviewed.

LHLS/EP officials stated that, in the past, workload requirements and staff availability prevented adequate follow-up to ensure subgrantee compliance with Federal requirements. However, officials said they had added staff members and were making progress in following up on subgrantee activities, meeting documentation requirements, and processing project closings.

Conclusions and Recommendations

LHLS/EP subgrantee files did not contain all relevant documentation to support key events or decisions and to allow an evaluation of the effectiveness of the State's monitoring of individual PA projects. The files did not track the projects through the PA process; did not always include documentation to facilitate the grantee's submission of quarterly project status reports to the Regional Director; and did not always provide evidence that the subgrantee had certified project completion or that costs claimed were allowable and had been paid by the subgrantee. As a result, we could not evaluate the adequacy of the grantee's monitoring and closure of PA projects.

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to develop and implement procedures to ensure that required monitoring is performed for approved PA projects and that the LHLS/EP's subgrantee case files contain appropriate supporting documentation.

Management's Response

We concur with the recommendation. We will work with the State to develop and implement procedures to ensure that PA projects are monitored and documented as required.
Target Date: September 1, 2005

Auditor's Additional Comment

The actions being taken by Regional Office management appear adequate to resolve the conditions cited. However, the finding cannot be closed until the State has developed and implemented procedures to ensure that PA projects are monitored and documented as required.

ATTACHMENTS

Attachment A-1

Sources and Applications of Funds

As of September 30, 2003

Summary of 6 Disasters and Emergency No. 3172

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$116,823,282	\$111,561,470	\$228,384,752
Local Match/State Share	35,865,392	37,146,833	73,012,225
Total Award Amounts	\$152,688,674	\$148,708,303	\$301,396,977
Sources of Funds			
Federal Share (SMARTLINK)	\$114,950,320	\$111,561,470	\$226,511,790
Local Match/State Share	38,481,539	37,146,833	75,628,372
	\$153,431,859	\$148,708,303	\$302,140,162
Total Undrawn Authorizations	\$1,872,962	\$0	\$1,872,962
Application of Funds (Expenditures)			
Federal Share	\$114,950,320	\$111,561,470	\$226,511,790
Local Match/State Share	38,481,539	37,146,833	75,628,372
Total Application of Funds	\$153,431,859	\$148,708,303	\$302,140,162
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-2

Sources and Applications of Funds**As of September 30, 2003
Disaster No. 1246****Declared September 23, 1998**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$23,209,634	\$7,106,246	\$30,315,880
Local Match/State Share	6,117,681	2,368,749	8,486,430
Total Award Amounts	\$29,327,315	\$9,474,995	\$38,802,310
Sources of Funds			
Federal Share (SMARTLINK)	\$23,177,411	\$7,106,246	\$30,283,657
Local Match/State Share	7,675,373	2,368,749	10,044,122
Total Sources of Funds	\$30,852,784	\$9,474,995	\$40,327,779
Total Undrawn Authorizations	\$32,223	\$0	\$32,223
Application of Funds (Expenditures)			
Federal Share	\$23,177,411	\$7,106,246	\$30,283,657
Local Match/State Share	7,675,373	2,368,749	10,044,122
Total Application of Funds	\$30,852,784	\$9,474,995	\$40,327,779
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-3

Sources and Applications of Funds

As of September 30, 2003
Disaster No. 1314

Declared February 15, 2000

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$2,642,347	\$0	\$2,642,347
Local Match/State Share	1,304,208	0	1,304,208
Total Award Amounts	\$3,946,555	\$0	\$3,946,555
Sources of Funds			
Federal Share (SMARTLINK)	\$2,642,347	\$0	\$2,642,347
Local Match/State Share	1,304,208	0	1,304,208
Total Sources of Funds	\$3,946,555	\$0	\$3,946,555
Total Undrawn Authorizations	\$0	\$0	\$0
Application of Funds (Expenditures)			
Federal Share	\$2,642,347	\$0	\$2,642,347
Local Match/State Share	1,304,208	0	1,304,208
Total Application of Funds	\$3,946,555	\$0	\$3,946,555
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-4

Sources and Applications of Funds

As of September 30, 2003
Disaster No. 1357

Declared January 12, 2001

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$4,352,419	\$0	\$4,352,419
Local Match/State Share	547,345	0	547,345
Total Award Amounts	\$4,899,764	\$0	\$4,899,764
Sources of Funds			
Federal Share (SMARTLINK)	\$4,348,044	\$0	\$4,348,044
Local Match/State Share	1,431,512	0	1,431,512
Total Sources of Funds	\$5,779,556	\$0	\$5,779,556
Total Undrawn Authorizations	\$4,375	\$0	\$4,375
Application of Funds (Expenditures)			
Federal Share	\$4,348,044	\$0	\$4,348,044
Local Match/State Share	1,431,512	0	1,431,512
Total Application of Funds	\$5,779,556	\$0	\$5,779,556
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-5

Sources and Applications of Funds

As of September 30, 2003
Disaster No. 1380

Declared June 11, 2001

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$9,135,095	\$43,258,977	\$52,394,072
Local Match/State Share	2,925,873	14,403,000	17,328,873
Total Award Amounts	\$12,060,968	\$57,661,977	\$69,722,945
Sources of Funds			
Federal Share (SMARTLINK)	\$9,067,798	\$43,258,977	\$52,326,775
Local Match/State Share	3,006,189	14,403,000	17,409,189
Total Sources of Funds	\$12,073,987	\$57,661,977	\$69,735,964
Total Undrawn Authorizations	\$67,297	\$0	\$67,297
Application of Funds (Expenditures)			
Federal Share	\$9,067,798	\$43,258,977	\$52,326,775
Local Match/State Share	3,006,189	14,403,000	17,409,189
Total Application of Funds	\$12,073,987	\$57,661,977	\$69,735,964
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-6

Sources and Applications of Funds

As of September 30, 2003
Disaster No. 1435

Declared September 27, 2002

	Public <u>Assistance</u>	Individual & Family	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$6,480,841	\$12,897,436	\$19,378,277
Local Match/State Share	2,070,506	4,294,176	6,364,682
Total Award Amounts	\$8,551,347	\$17,191,612	\$25,742,959
Sources of Funds			
Federal Share (SMARTLINK)	\$6,119,800	\$12,897,436	\$19,017,236
Local Match/State Share	2,033,550	4,294,176	6,327,726
Total Sources of Funds	\$8,153,350	\$17,191,612	\$25,344,962
Total Undrawn Authorizations	\$361,041	\$0	\$361,041
Application of Funds (Expenditures)			
Federal Share	\$6,119,800	\$12,897,436	\$19,017,236
Local Match/State Share	2,033,550	4,294,176	6,327,726
Total Application of Funds	\$8,153,350	\$17,191,612	\$25,344,962
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-7

Sources and Applications of Funds

As of September 30, 2003

Disaster No. 1437

Declared October 3, 2002

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$70,586,177	\$48,298,811	\$118,884,988
Local Match/State Share	22,899,779	16,080,908	38,980,687
Total Award Amounts	\$93,485,956	\$64,379,719	\$157,865,675
Sources of Funds			
Federal Share (SMARTLINK)	\$69,181,087	\$48,298,811	\$117,479,898
Local Match/State Share	23,030,707	16,080,908	39,111,615
Total Sources of Funds	\$92,211,794	\$64,379,719	\$156,591,513
Total Undrawn Authorizations	\$1,405,090	\$0	\$1,405,090
Application of Funds (Expenditures)			
Federal Share	\$69,181,087	\$48,298,811	\$117,479,898
Local Match/State Share	23,030,707	16,080,908	39,111,615
Total Application of Funds	\$92,211,794	\$64,379,719	\$156,591,513
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment A-8

Sources and Applications of Funds**As of September 30, 2003****Emergency No. 3172****Declared February 1, 2003**

	<u>Public Assistance</u>	<u>Individual & Family</u>	<u>Totals</u>
Award Amounts (FEMA approved)			
Federal Share	\$416,769	\$0	\$416,769
Local Match/State Share	0	0	0
Total Award Amounts	\$416,769	\$0	\$416,769
Sources of Funds			
Federal Share (SMARTLINK)	\$413,833	\$0	\$413,833
Local Match/State Share	0	0	0
Total Sources of Funds	\$413,833	\$0	\$413,833
Total Undrawn Authorizations	\$2,936	\$0	\$2,936
Application of Funds (Expenditures)			
Federal Share	\$413,833	\$0	\$413,833
Local Match/State Share	0	0	0
Total Application of Funds	\$413,833	\$0	\$413,833
Balance of Federal Funds On Hand	\$0	\$0	\$0

Attachment B**List of Acronyms**

CFR	Code of Federal Regulations
EFT	Electronic Funds Transfer
FEMA	Federal Emergency Management Agency
FSR	Financial Status Report
IFG	Individual and Family Grant
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
LHLS/EP	Louisiana Office of Homeland Security and Emergency Preparedness

MANAGEMENT COMMENTS



Denton, TX 76209-3698

FEMA

January 14, 2005

MEMORANDUM FOR: Tonda L. Hadley, Field Office Director
Department of Homeland Security Office of Inspector General

FROM: *Gary Jones*
Gary Jones
Acting Regional Director

SUBJECT: Response to Draft Audit Report
Grant Management: Louisiana's Compliance with Disaster Assistance
Program's Requirements
Job Code A-D-04-04

We have completed a review of the above referenced draft audit report. Many of the findings reflect a need to improve records and reporting. In discussions between Louisiana Office of Homeland Security and Emergency Preparedness staff (LOHSEP) and FEMA staff, we believe record keeping and progress reports are improving and that they will continue to improve significantly. Region VI will assist the State in this ongoing project.

Your recommendations are listed below followed by our response.

A. Financial Management

1. Use of Administrative Allowances

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI:

1. Disallow \$299,676 of unallowable and insufficiently documented claimed administrative allowance costs.
2. Disallow any claims subsequent to September 2003 for administrative allowance costs unless LHLS/EP can prove the costs claimed were eligible and reported, and
3. Require LHLS/EP to develop and implement effective internal control procedures to ensure that administrative allowance funds are used only for allowable extraordinary costs associated with the disaster program for which the funds were awarded.

Region VI response:

1. We concur that any unallowable or insufficiently documented costs should be disallowed. We need documentation (project worksheets and disaster numbers) to determine if we concur with the questioned costs.

Target Date: June 1, 2005

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Memo - Tonda L. Hadley
Page 2
January 14, 2005

2. We concur that we will disallow any ineligible claims for administrative costs as identified by future audits. If we become aware of claims for administrative costs that may be ineligible, we will request an audit of these claims.
Target Date: Ongoing
3. We concur that we will require the State to develop and implement effective internal controls to assure that disaster funds are used appropriately.
Target Date: September 1, 2005

2. Timely Disbursement of Federal Funds

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Implement policies and procedures to minimize the time elapsing between the drawdown of PA funds from SMARTLINK and their disbursement to subgrantees,
2. Consider requiring all subgrantees to receive PA funds by EFT,
3. Determine the interest earned from early drawdowns of Federal funds for open PA programs, and
4. As part of the program closure process, require the State to reimburse FEMA for the income received as a result of untimely payments.

Region VI response:

1. We concur with this recommendation. We will work with the State to implement procedures to disburse funds more quickly from SMARTLINK.
Target Date: September 1, 2005
2. We do not concur with this recommendation. We have no authority to require the State to make that requirement of the sub-grantees. We recommend the practice but cannot make the requirement.
3. We concur that the interest earned from early drawdowns should be identified. We will request that the State identify the interest earned from these early drawdowns.
Target Date: June 1, 2005
4. We concur with this recommendation. We will ask the State to reimburse FEMA for any interest earned from untimely payments.
Target Date: September 1, 2005

B. Program Management

1. Quarterly Progress Reporting

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Enforce the requirement in the FEMA-approved administrative plan that subgrantees submit quarterly status reports and
2. Establish procedures to ensure that the required PA quarterly progress reports for all open projects are submitted by the grantee to FEMA until final payment is made.

Memo – Tonda L. Hadley
Page 2
January 14, 2005

Region VI response:

1. We concur with this requirement. We will work with the State to ensure that subgrantees submit quarterly status reports.
Target Date: Open until the next disaster, then ongoing
2. We concur with this requirement. The State is developing procedures to ensure quarterly reports on all open PA projects and has been submitting quarterly reports, which the Region has been reviewing. We will continue to work with the State to complete and implement these procedures.
Target Date: September 1, 2005

2. Large Project Payments

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to:

1. Develop and implement procedures to ensure that payments for large projects comply with Federal requirements and LHLS/EP's approved PA administrative plan and
2. Refund to FEMA the overpayment of \$183,029 made to a subgrantee.

Region VI response:

1. We concur that the State must have procedures to ensure that payments for large projects comply with Federal requirements. We will work with the State to ensure that they have these procedures and that they implement them.
Target Date: September 1, 2005
2. We concur that any overpayments of federal disaster funds made to a subgrantee must be refunded to FEMA. We will work with the auditors to identify any overpayments and recoup the funds. The auditors will need to identify the disasters and the PWs before the Region can concur with the amount of any overpayment or recoup any funds from overpayments.
Target Date: September 1, 2005

3. Small Project Payments

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, FEMA Region VI, require LHLS/EP to develop and implement procedures that will improve the efficiency of the State's payment process and result in timely payments to subgrantees for small projects.

Region VI response:

We concur with the recommendation. We will work with the State to develop and implement procedures to make the State's payment of grants for small projects more efficient and timely.

Target Date: September 1, 2005

Memo – Tonda L. Hadley
Page 2
January 14, 2005

4. Project Monitoring and Case File Management

Conclusions and Recommendations

Accordingly, we recommend that the Regional Director, Region VI, require LHLS/EP to develop and implement procedures to ensure that required monitoring is performed for approved PA projects and that the LHLS/EP's subgrantee case files contain appropriate supporting documentation.

Region VI response:

We concur with the recommendation. We will work with the State to develop and implement procedures to ensure that PA projects are monitored and documented as required.

Target Date: September 1, 2005